COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED GAS ADJUSTMENT FILING OF AUXIER ROAD GAS COMPANY, INC.	)	CASE NO. 9318-D

ORDER ON REHEARING

Background

On January 28, 1987, the Commission received a copy of a letter from Kentucky West Virginia Gas Company ("Kentucky West") to Columbia Gas of Kentucky, Inc., ("Columbia") stating that it had contracted to provide natural gas transportation service on behalf of Auxier Road Gas Company, Inc. ("Auxier"). On April 3, 1987, a meeting was held between representatives of Auxier and Commission Staff to discuss the rate treatment of the contracts between Auxier and Kentucky West and Auxier and the Highland Regional Medical Center ("Highland"). At that meeting, Auxier indicated it would phase in rate reductions through monthly purchased gas adjustment ("PGA") filings. On July 23, 1987, the Commission received a letter from counsel for Auxier stating Auxier's understanding that PGAs would be filed on an annual basis.

On August 13, 1987, the Commission issued its Order in this case directing Auxier to file information on the volumes and prices of gas purchased from Kentucky West to date and to file a detailed plan for passing the savings from the Kentucky West contract through to ratepayers. On August 31, 1987, Auxier filed a Motion requesting the Commission reconsider its Order with respect to this and other items. Auxier requested that it not be required to file either the information on the volumes and prices of gas purchased from Kentucky West or a plan for passing the savings from the Kentucky West contract through to ratepayers. Auxier also requested a meeting with Commission Staff. On September 21, 1987, the Commission issued its Order denying both of these requests.

On October 14, 1987, Auxier filed information on the volumes and prices of gas purchased from Kentucky West, which reflected a savings of $8,900 through August 1987. However, Auxier included information on sales made to Highland under a special contract. Auxier compared annual revenues under the Highland contract with calculated revenues for the same Mcf volumes as if billed at Auxier's regular rates. Auxier stated that the difference of $32,803 was a sales loss that should be offset against the Kentucky West contract savings and, thus, no savings should be passed on to the other customers of the system.

On November 13, 1987, the Commission issued its Order in this case finding no basis for Auxier's position as the two issues were unrelated and again directed Auxier to file a detailed plan for passing the savings from the Kentucky West contract through to the other ratepayers. On November 30, 1987, Auxier filed a Motion for Rehearing of the November 13, 1987, Order. On February 4, 1988, the rehearing was held.

Discussion

During the rehearing, Auxier renewed its claim to offset the savings from lower cost locally produced gas purchases through Kentucky West against the "sales loss" from the Highland contract.

Estill Branham, President of Auxier, testified at the hearing. Mr. Branham stated that Highland, Auxier's largest customer, had significantly reduced its gas purchases in February 1986.[1] To get Highland back on full load, he entered into the special contract in May 1986, the same month he started taking gas through Kentucky West.[2] Mr. Branham claimed to have been able to give Highland the special contract rate because of the availability of the cheaper locally produced gas acquired through Kentucky West's system.[3] He asserted that the special contract saved other customers $1.78 per Mcf, since he would have had to raise rates without the Highland sales.[4] He admitted that the lower cost purchases through Kentucky West had been substantial, reaching about two-thirds of sales by late summer 1987 and continuing at a low level at the time of the hearing.[5] Mr. Branham further testified that even with the special contract Highland had once again reduced purchases in October 1987.[6]

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1 T.E., page 7.

2 T.E., page 9.

3 T.E., page 10.

4 T.E., page 11.

5 T.E., page 23.

6 T.E., pages 19-20.

On July 2, 1986, the Commission issued its Order on Rehearing in Case No. 9318, "Adjustment of the Rates of Auxier Road Gas Company, Inc., for an Increase in Gas Rates." In that Order the Commission allowed increased rates to Auxier to cover return on investment, depreciation expense and taxes associated with the Cliff transmission line, the line through which the lower cost gas is transported.

In granting the expenses associated with the Cliff line, the Commission noted that the immediate impact of the added cost of the line would be more than offset in savings when Auxier contracted for cheaper sources of gas.

The Commission, in that Order, explicitly stated as follows:

> "The Commission expects the use of this line to result in cheaper sources of gas for Auxier Road, which will be reflected in lower rates through Auxier Road's purchased gas adjustment clause, as new contracts are signed with other suppliers. Auxier Road should advise the Commission as these negotiations progress."

It was clearly the Commission's intention that the entire body of ratepayers should benefit from the lower cost of gas and that the savings should be passed through Auxier's PGA. Auxier's contention that the reduction in sales price to Highland directly benefits the other ratepayers of the system is not persuasive and is not the issue. The special contract with Highland was set at a flat rate and is not subject to PGA changes; therefore, regardless of what savings Auxier realizes from the purchase of locally produced gas, the rates to Highland remains the same. The only rates that change with changes in the wholesale cost of gas are those of the regular customers. Should Auxier's general rates need changing as a result of its special contract with Highland, then Auxier needs to file a full rate case wherein any changes can be reviewed. This case is to determine the appropriate decrease or increase pursuant to Auxier's PGA Clause and reduction in revenues from the special contract with Highland clearly is not within the scope of said clause.

Findings and Orders

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

1. Auxier has been purchasing lower cost gas from local producers.

2. Auxier's PGA Clause requires that any decrease or increase in its wholesale cost of gas be passed through to its customers. Auxier has not included the lower cost gas in its wholesale cost of gas through its PGA.

3. Auxier is not in compliance with its PGA Clause.

4. The PGA pass through of savings from lower cost gas is not affected by the special contract rate for gas sold to Highland and does not change the wholesale cost of gas.

5. Auxier's request to offset the savings from the purchase of lower cost gas with the reduction in revenue from Highland should be denied.

6. Auxier should include the lower cost of gas purchased from local producers in its wholesale cost of gas in its PGA filings. Auxier should file information concerning all volumes of gas purchased from local producers from the day it began purchasing said gas to the present.

7. Auxier should file a detailed plan to refund the savings from the purchase of locally produced gas.

IT IS THEREFORE ORDERED that:

1. Auxier's request to offset the savings from the purchase of lower cost gas with the losses on the sales to Highland be and it hereby is denied.

2. Auxier shall include the lower cost gas purchases in its wholesale cost of gas in its PGA filings.

3. Auxier shall file information concerning all volumes of gas purchased from local producers from the date it began purchasing said gas to the present.

4. Auxier shall file a detailed plan to refund the savings from the purchase of locally produced gas to its customers within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 7th day of April, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.
Chairman

Robert M. Davis
Vice Chairman

Commissioner

ATTEST:

Executive Director